

PAID UP OIL AND GAS LEASE

THIS LEASE AGREEMENT is made as of the 23rd day of June, 2008, between:

S.J. Thornhill Partnership
7755 Bellaire Drive South
Fort Worth, Texas 76132

As Lessor

and Vargas Energy, Ltd., as Lessee. All printed portions of this lease were prepared by the party hereinabove named as Lessee, but all other provisions (including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

1. In consideration of a cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises:

1.264 acres of land, being a tract of land situated in the Nathan Proctor Survey, Abstract No. 1230 and the John F. Heath Survey, Abstract No. 641, City of Fort Worth, Tarrant County, Texas and being part of Lot 1, Block A, River Hills Addition Phase II, an addition to the City of Fort Worth, as conveyed by Oakmont Land Investors to Hawkins Family Joint Venture, as recorded in Volume 14793, Page 94, Deed Records, Tarrant County, Texas. And now being known as Lot 1A, Block A, River Hills Addition Phase II, an addition to the City of Fort Worth, Tarrant County, Texas, as recorded in Cabinet A, Slide 6817, Plat Records, Tarrant County, Texas.

(including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and non hydrocarbon substances produced in association therewith (including geophysical/seismic operations). The term "gas" as used herein includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases. In addition to the above-described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above-described leased premises, and, in consideration of the aforementioned cash bonus, Lessor agrees to execute at Lessee's request any additional or supplemental instruments for a more complete or accurate description of the land so covered. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

2. This lease, which is a "paid-up" lease requiring no rentals, shall be in force for a primary term thirty (30) months from the date hereof, and for as long thereafter as oil or gas or other substances covered hereby are produced in paying quantities from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

3. Royalties on oil, gas and other substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be **25%** of such production; to be delivered at Lessee's option to Lessor at the

wellhead or to Lessor's credit at the oil purchaser's transportation facilities, provided that Lessee shall have the continuing right to purchase such production at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be 25% of the proceeds realized by Lessee from the sale thereof, less a proportionate part of ad valorem taxes and production, severance, or other excise taxes and the costs incurred by Lessee in delivering, processing or otherwise marketing such gas or other substances, provided that Lessee shall have the continuing right to purchase such production at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if at the end of the primary term or any time thereafter one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby in paying quantities, but such well or wells are either 'shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut-in or production therefrom is not being sold by Lessee, then Lessee shall pay shut-in royalty of twenty dollars per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the depository designated below, on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90day period while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained by operations, or if production is being sold by Lessee from another well or wells on the leased premises or lands pooled therewith, no shut-in royalty shall be due until the end of the 90-day period next following cessation of such operations or production. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

4. All shut-in royalty payments under this lease shall be paid or tendered to Lessor for receiving payments regardless of changes in the ownership of said land. All payments or tenders may be made in currency, or by check or by draft and such payments or tenders to Lessor or to the depository by deposit in the US Mails in a stamped envelope addressed to the depository or to the Lessor at the last address known to Lessee shall constitute proper payment. If the depository should liquidate or be succeeded by another institution, or for any reason fail or refuse to accept payment hereunder, Lessor shall, at Lessee's request, deliver to Lessee a proper recordable instrument naming another institution as depository agent to receive payments.

5. If Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production (whether or not in paying quantities) permanently ceases from any cause; including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If at the end of the primary term, or at any time thereafter, this lease is not otherwise being maintained in force but Lessee is then engaged in drilling, reworking or any other operations reasonably calculated to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in the production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased

premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then capable of producing in paying quantities on the leased premises or lands pooled therewith, or (b) to protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein.

6. Lessee shall have the right but not the obligation to pool all or any part of the leased premises or interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well which is not a horizontal completion shall not exceed 80 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" means an oil well in which the horizontal component of the gross completion interval in the reservoir exceeds the vertical component thereof. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. To the extent any portion of the leased premises is included in or excluded from the unit by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. In the absence of production in paying quantities from a unit, or upon permanent cessation thereof, Lessee may terminate the unit by filing of record a written declaration describing the unit and stating the date of termination. Pooling hereunder shall not constitute a cross-conveyance of interests.

7. If Lessor owns less than the full mineral estate in all or any part of the leased premises, the royalties and shut-in royalties payable hereunder for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full mineral estate in such part of the leased premises.

8. The Interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or tone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and

assigns. No change in Lessors ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or certified or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee or until Lessor has satisfied the notification requirements contained In Lessee's usual form of division. order. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties' to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part Lessee shall be relieved of all obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full pr undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

9. Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to a full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases all or an undivided interest in less than all of the area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the net acreage interest retained hereunder.

10. In exploring for, developing, producing and marketing oil, gas and other substances covered hereby on the leased premises or lands pooled or unitized herewith, in primary and/or enhanced recovery, Lessee shall have the right of ingress and egress along with the right to conduct such operations on the leased premises as may be reasonably necessary for such purposes, including but not limited to geophysical operations, the drilling of wells, and the construction and use of roads, canals, pipelines, tanks, water wells, disposal wells, injection wells, pits, electric and telephone lines, power stations, and other facilities deemed necessary by Lessee to discover, produce, store, treat and/or transport production. Lessee may use in such operations, free of cost, any oil, gas, water and/or other substances produced on the leased premises, except water from Lessor's wells or ponds. In exploring, developing, producing or marketing from the leased premises or lands pooled therewith, the ancillary rights granted herein shall apply (a) to the entire leased premises described in Paragraph 1 above, notwithstanding any partial release or other partial termination of this lease; and (b) to any other lands in which Lessor now or hereafter has authority to grant such rights in the vicinity of the leased premises or lands pooled therewith. When requested by Lessor in writing, Lessee shall bury its pipelines below ordinary plow depth on cultivated lands. No well shall be located less than 200 feet from any house or barn now on the leased premises or other lands used by Lessee hereunder, without Lessor's consent, and Lessee shall pay for damage caused by its operations to buildings and other improvements now on the leased premises or such other lands, and to commercial timber and growing crops thereon. Lessee shall have the right at any time to remove its fixtures, equipment and materials, including well casing, from the leased premises or such other lands during the term of this lease or within a reasonable time thereafter.

11. Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction including restrictions on the drilling and production of wells, and the price of oil, gas, and other substances covered hereby. When drilling, reworking, production or other operations are prevented or delayed by such laws, rules, regulations or orders, or by inability to obtain necessary permits, equipment, services, material, water, electricity, fuel, access or easements, or by fire, flood, adverse weather conditions, war, sabotage,

rebellion, insurrection, riot, strike or labor disputes, or by inability to obtain a satisfactory market for production or failure of purchasers or carriers to take or transport such production, or by any other cause not reasonably within Lessee's control, this lease shall not terminate because of such prevention or delay, and at Lessee's option, the period of such prevention or delay shall be added to the term hereof. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

12. No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, for a period of at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default, within such period. In the event the matter is litigated and there is a final judicial determination that a breach or default has occurred, this lease shall not be forfeited or canceled in whole or in part unless Lessee is given a reasonable time after said judicial determination to remedy the breach or default and Lessee fails to do so.

13. Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises; If Lessee exercises such option, Lessee shall be subrogated to the rights of that party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

This lease shall expire at the expiration of its primary term, or any extension thereof, as to all depths 100 feet below the stratigraphic equivalent of the base of the Barnett Shale formation on the above described lands or on lands spaced, unitized, or pooled therewith. No surface usage allowed on the premises without the express written permission of the Lessor.

IN WITNESS WHEREOF, this lease is executed to be effective as of the date; first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

WITNESS AND/OR ATTESTATIONS:

LESSOR (WHETHER ONE OR MORE)

LESSEE:

VARGAS ENERGY, LTD.

By: 
Name Printed: _____
Title: _____

LESSOR:

SJ THORNHILL PARTNERSHIP

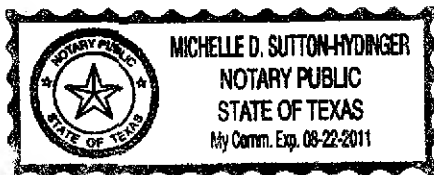
By: 
Steve Hawkins, Partner

ACKNOWLEDGMENT

STATE OF TEXAS *

COUNTY OF Tarrant *

This instrument was acknowledged before me on the 23rd day of June, 2008
by Steve Hawkins, Partner of SJ THORNHILL PARTNERSHIP.



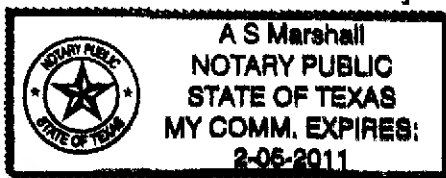
Michelle D. Sutton-Hydringer
Notary Public, State of Texas
Notary's name printed: Michelle D. Sutton-Hydringer
Notary's commission expires: August 22, 2011

ACKNOWLEDGMENT

STATE OF TEXAS *

COUNTY OF TARRANT *

This instrument was acknowledged before me on the 24th day of July, 2008,
by Cumford Edwards General Partner of Vargas Energy, Ltd. On behalf of said limited
partnership. President of Placer Production Company, Sole general partner of
VARGAS ENERGY, LTD. on Behalf of said Limited Partnership.



A S Marshall
Notary Public, State of Texas
Notary's name printed: A S Marshall
Notary's commission expires:

**ADDENDUM
EXHIBIT A**

Attached to and made a part of that certain OIL, GAS AND MINERAL LEASE dated June 23rd, 2008, between SJ THORNHILL PARTNERSHIP, as Lessor, and VARGAS ENERGY, LTD., as Lessee.

1. AGREEMENT SUPERSEDED

The provisions of this Exhibit A supersede any provisions to the contrary contained in the lease to which this Exhibit is attached.

2. OIL AND GAS ONLY FROM PRODUCING FORMATIONS

Notwithstanding any other provision of this lease, this lease covers and includes oil and gas only (including with oil and gas, all constituent elements thereof and all other liquefiable hydrocarbons and products of every kind or character derived therefrom and produced therewith from the well bore, including sulphur), and that all minerals other than oil and gas are excepted from this lease and reserved by Lessor. Solid minerals, such as iron, coal, sand, gravel, clay, uranium and sulphur (apart from sulphur produced through the well bore) are excluded from this lease.

3 ROYALTY

(a) The royalty on gas shall be computed on the gross proceeds received by Lessee from a third party purchaser. Lessor's royalty shall be free and clear of all costs and expenses whatsoever including expenses of separation, compression, marketing, transportation, treating or manufacturing oil or gas produced hereunder, save and except ad valorem and production taxes. Provided hereunder, Lessor's royalty shall be subject proportionately to any charges incurred by Lessee for compressing, treating, processing, gathering, transporting and marketing under Lessee's gas purchase contract with a nonaffiliated third party covering the sale of production from the lands included in this lease.

(b) For the purpose of computing oil royalties hereunder, the gross proceeds received by Lessee shall include all bonus or premium amounts, in addition to posted prices, received or reasonably available to Lessee, or any affiliate of Lessee, upon resale.

4. SHUT-IN ROYALTY

It is expressly agreed and understood that after the expiration of the primary term of the lease, the lease may be maintained in force solely by the payment of shut-in royalties for a cumulative period not to exceed 2 years.

5. POOLING

Notwithstanding the provisions of Paragraph 6 of the lease, if Lessee shall pool the leased premises, any unit so formed shall not exceed 160 acres unless greater acreage is allowed under Statewide Rule 86 promulgated by the Texas Railroad Commission relating to horizontal drain holes or otherwise agreed in writing by Lessor. If Lessee elects to pool, then Lessee shall pool all of the acreage covered by this lease. If the leased premises are included in a pooled unit or units, then, at the expiration of the primary term, only the land that is included in a pooled unit or units shall continue to be held by the lease. The balance of the acreage shall revert to Lessor.

6. **NO USE OF SURFACE OR WATER**

Notwithstanding any other provision of this lease, Lessee shall not enter upon nor use any of the leased premises for drilling on the surface or for any other surface or pipeline operations such as (but not limited to) storing any equipment, materials, or supplies related to drilling operations or pipelines, or for any staging, housing, or transportation of personnel. Any subsurface drilling or operations by Lessee shall in no manner interfere with the surface or subsurface support of any improvements constructed or to be constructed on the Property. Lessee shall not use any water located on or beneath the surface of the leased premises for drilling, water injection, saltwater injection, secondary recovery, or other operations.

Lessee shall not transport gas of a third party or gas produced below the leased premises across the leased premises without a separate written right-of-way agreement.

7. **LEGAL COMPLIANCE**

Lessee shall conduct all operations under this lease in accordance with the rules and regulations of the Railroad Commission of Texas and the City of Fort Worth (if within the city limits), and Lessee shall strictly observe and comply with all local, state and federal environmental laws and regulations dealing with its operations below or relating to the leased premises.

8. **INDEMNITY**

Lessee, at its sole cost and expense, agrees to defend, indemnify, and hold Lessor harmless from and against any and all actions, claims, demands, causes of action, damages (including , but not limited to, remedial actions), fines, administrative and judicial proceedings, judgments, orders, enforceable actions, expenses and costs of any kind or character, including (but not limited to) reasonable attorney fees, arising out of or in any way connected with Lessee's operations on the leased premises or on the land with which the leased premises are pooled or unitized. Prior to the commencement of any drilling or operations on or below the leased premises or the land with which the leased premises are pooled or unitized Lessee shall cause its insurance carrier to furnish Lessor with a certificate that names Lessor as an additional insured on the insurance coverage obtained by Lessee under Section 15-41 of the Code of Ordinances of the City of Fort Worth relating to Lessee's operations on the leased premises or on the land with which the leased premises are pooled or unitized, or satisfying the same requirements as stated in such ordinance if all of the leased premises and the land with which the leased premises are pooled or unitized are located outside the city limits of the City of Fort Worth. Lessee shall continue to provide Lessor with proof of such insurance coverage for a period of three (3) years after the cessation of any operations on the leased premises or the land with which the leased premises are pooled or unitized.

9. **ASSIGNMENT**

It is expressly understood and agreed that, with the exception of interests acquired by entities participating in a venture governed by a Joint Operating Agreement in which Lessee herein is designated "Operator", Lessee shall not assign this lease without prior written consent of Lessor, which consent shall not be unreasonably withheld.

10. **NO WARRANTY OF TITLE**

The lease is entered into by the parties without any warranty of title by, or recourse upon, Lessor whatsoever, not even for the return of the considerations paid for or under this lease. This lease shall be subject to all outstanding liens, restrictions, covenants, easements, and other matters appearing of public record in Tarrant County, Texas. Lessee must satisfy itself as to title and acquire all necessary abstracts and other title information at its own expense.

12 **BINDING EFFECT**

This lease shall be binding on the parties hereto and their successors, assigns, heirs and legal representatives.

LESSEE:

VARGAS ENERGY, LTD.

By: 

Name Printed: CRAWFORD EDWARDS

Title: PRESIDENT

LESSOR:

SJ THORNHILL PARTNERSHIP

By: 

Steve Hawkins, Partner

Return to:
Holland Acquisitions
309 W 7th Street Suite 300
Fort Worth, TX 76102



HOLLAND ACQUISITIONS
309 W 7TH ST, STE 300

FT WORTH TX 76102

Submitter: HOLLAND ACQUISITIONS INC

SUZANNE HENDERSON
TARRANT COUNTY CLERK
TARRANT COUNTY COURTHOUSE
100 WEST WEATHERFORD
FORT WORTH, TX 76196-0401

DO NOT DESTROY
WARNING - THIS IS PART OF THE OFFICIAL RECORD.

Filed For Registration: 07/30/2008 03:49 PM
Instrument #: D208297169
LSE 10 PGS \$48.00

By: _____



D208297169

**ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.**

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